

Testimony Of

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To

The House Committee on Small Business

April 3, 2008

Longworth House Office Building, Room 1539

“The Role of Credit Cards In Providing Small Business Financing”

Good morning Madame Chairwoman and members. It is a pleasure to come before you this morning to provide my personal Testimony regarding the use of credit cards by our Nation's small businesses. My testimony is very personal and will hopefully reveal to the members of this Committee the very important role credit cards can play in the establishment, support, and success of America's small businesses.

When I joined the Marine Corps in 1966, my taxable income was \$551.00. My second year in the Marine Corps earned me \$1,361. When I retired from the Corps in 1987, my taxable income was \$20,811. While in the Corps for 21 years, I maintained a bank account with Banks on the military bases but really had no banking and lending needs. When I left the Marine in 1987, I opened a checking account but had no money for savings. I went to work for two years in support of local minority owned small businesses and in December of 1989, left my place of employment, and started Quality Support, Inc. My operations started out of my home. When Quality Support, was established Inc. in 1989, I had no lending history or a track record of working with banks.

I started Quality Support with about \$600 of expendable cash on hand, and a small loan from my Father who himself had little need for banks over his life time. I had gotten an American Express Card in 1988, and I also opened up VISA and Master Charge credit card accounts through a number of other sources. I also opened up a Wells Fargo Account. In 1989, I applied for and was accepted for an American Express Corporate Card and I also opened up a Corporate Checking Account.

Throughout the early years of Quality Support I used credit cards to purchase office supplies, pay for reproduction costs, pay for my travel and fuel costs, and a number of other items that would otherwise require the outlay of cash. I was always aware of what I was spending and did not overcharge on any of my many credit card accounts. I knew what money I had coming in, and I used these cards with prudence. There were many, many times however, when I would only pay interest due; this approach allowed me to effectively utilize what cash I had in my checking account and gave me the assurance of extended operations. Given my hard work, zeal, enthusiasm, and gaining experience, I knew it was just a matter of time until success appeared...and what I needed most was time, and time could be assured only if I stayed on top of my payables and costs of living.

When I applied for the Small Business Administration's Section 8(a) program after my first two years in business, I was rejected because "there was no evidence that I had access to capital nor a bank Line of Credit. In reality, my bank turned me down flat when I asked for a Line of Credit, and in retrospect, I now know why. A year after my rejection by SBA, and three years after the start of Quality Support, I once again applied for SBA 8(a) status, and in this application included a letter from a local "Factoring Company" that indicated I had a Line of Credit up to \$500,000.00. This "letter" cost me \$500.00 to obtain. Thus, given my experiences in the early years of my business, I quickly learned the realities of lending and realized that banks would not be available until I gained much more capital.

During the period up to 1996, Quality Support used the American Express Corporate card because this card offered huge advantages of which I will speak of later in this Testimony. In 1997, Quality Support's international conference and meeting support division really took off and this is the time when we began to need quick access to flexible amounts of cash. We had to book and reserve hundreds of hotel rooms, pay for international travel, and pay in advance for other direct costs associated with our support to agencies of the Federal Government. In 1998, we used our American Express card to support \$32,000.00 worth of purchases.

In 1999, Quality Support was selected by the Department of State to support international conference and meeting support requirements at the highest levels of Government. Quality Support was required to open an office in London, provide international lodging and travel services, and overall administrative and logistical support. This particular contract would require no less than \$1M in available lines of credit. Knowing we could not accept this particular task order until cash flow was available, we went to our Bank where we had a fairly substantial cash balance and an established track record, but this Bank turned us down. Here we were with a multi million dollar contract and a significant task order that we might lose because we would not have the cash flow to support operations. We then contacted American Express OPEN, and through dialogue with a customer service representative, supported with a copy of our contract, we were authorized credit up to \$1M. In essence, this credit card company, American Express, gave us the capacity to go forward and perform this task order through to completion. At the end of this task, we had charged \$1.1M to our American Express account. So successful was our performance that we remain a competitive and experienced contractor in support of international Department of State requirements. Once we realized we had operational capacity through our Line of Credit with American Express and the use of our Corporate Credit Cards, we "fired" our long standing Bank. Since the time of this contract in 1999, and subsequent to a number of years of success and financial growth, our former Bank has repeatedly approached us to offer their services and we have repeatedly declined such offers.

Although Quality Support does have Corporate VISA Cards through our existing Bank, we still prefer to use our American Express OPEN Cards (AmEx). From 1994 to the first quarter of calendar year 2008, Quality Support has charged more than some \$8M in other direct costs and purchases through American Express in direct support of our various contract requirements. Given the requirements we have planned for calendar year 2008, we are on pace to charge \$2.5 million through our American Express credit cards this year.

It is a fact that American Express OPEN provides Quality Support with superior service and customer friendly terms not found at the Banks we have previously dealt with.

History of Credit Card Use - As noted above, from 1997 to 1999, the use of the credit card became much more central to our overall operations. From 1999 to present, it has become crucial to our contract performance. In recent years, we could have used cash in the bank for most, but not all, of our heavy "other direct costs," but using AmEx has given us float time so that the time cash is out, is minimized. Using the aforementioned scenario, Quality Support is able to take on extremely large "other direct charge (ODC)" contracts with minimal risk.

In addition to flexibility and availability, the other reason we use credit cards, instead of Bank Lines of Credit, is that Bank LOCs are very restrictive with terms that are harmful and costly. The following are specific reasons we see Banks as hostile to our corporate interests:

HOSTILE BANK LINE OF CREDIT (LOC) TERMS – Quality Support’s relationship with Amex is a stark contrast to setting up and using bank LOCs. They are inconvenient, can be very expensive and handcuff the way a business operates.

A few years ago after breaking ties with our old Bank, we went to another major Bank to seek a LOC. This LOC was for an amount less than what AmEx has extended. The agreement we were asked to sign indicated we could not enter Teaming agreements without the Bank’s permission, forced us to incur huge and intrusive costs, and stated the loan could be called at any time. The agreement basically ensured that the bank would generate good income, while their level of risk in practical terms was zero. Below are the aggressive and harmful terms that this Bank required us to accept:

- Quality Support would not be allowed to make any distributions while the agreement was in effect, making the owners’ personal finances at the mercy of the Bank. This would be the case whether the LOC was used or not.
- Quality Support would not be allowed to enter into any teaming agreements without permission from the Bank, basically stunting opportunities for future growth and stability.
- In addition to Quality Support guaranteeing the loan with its assets, the Bank wanted me, Wayne Gatewood, to personally guarantee the loan with my personal assets, thus circumventing the main reason that a company incorporates.
- The Bank would require Quality Support to assign our contracts to them. Thus, the Bank would put a lien on our receivables so that the Bank would be paid directly from our clients, and not from Quality Support.
- The Bank required that we maintain a Net Worth of \$1.5 million to secure a \$500K credit line. Not only was this amount excessive in comparison to the LOC, if we dipped even slightly below that \$1.5M mark for even a short period of time, the Bank could call in the loan immediately.
- Even if we were not in default of the loan terms, the Bank reserved the right to “call in” the loan at any time for any reason and we would have to immediately provide full payment. This “right” of the Bank effectively cancelled any benefit of the LOC, because we had to be ready to provide payment of any monies borrowed any time the Bank requested, and without future notice.
- The term of the LOC would be one year only. On the 366th day of the agreement, all outstanding balances were due and terms would only be extended at the full discretion of the Bank.

- The Bank could request a field audit of our finances and other records at any time they chose, and as many times as they chose, at Quality Support's expense.
- In addition to the cost of the field audits, Quality Support would be responsible for all out of pocket expenses incurred by the Bank (including attorneys' fees) in connection with preparation of the LOC and other Loan Documents or any transactions contemplated by the agreement. This was the case even if we never used the LOC, and was in addition to the \$2500 per year fee required to maintain the LOC. Overall, the Bank had the discretion to create expenses for Quality Support.
- To pay for these expenses, Quality Support would have to agree to let the Bank debit any account maintained by Quality Support, without prior consent from us.
- Quality Support could only use the borrowed funds for current operating expenses, to carry receivables, or for other short term working capital. We could not use the funds for any long term capital investment, etc.
- The Bank demanded a copy of our contract backlog, with specific information regarding our clients, our contracts values, the types of contracts, current funding, etc. They wanted this information updated every three months even if we did not borrow any money. The following is a portion of the LOC application recently offered Quality Support:

“The Borrower shall deliver to the Bank (1) within 120 days after the close of each of its fiscal years, reviewed financial statements of the Borrower, prepared in accordance with GAAP, including a balance sheet, income statement, statements of stockholders' equity and of cash flows, prepared by an independent certified public accounting firm acceptable to the Bank ; (2) within 30 days after the end of each quarter of each of its fiscal years, unaudited financial statements of the Borrower, including a balance sheet and income statement, prepared in accordance with GAAP; (3) when borrowing under the Line, within 30 days after the end of each calendar month (i) an appropriately completed Borrowing Base Certificate setting forth a calculation of the Borrowing Base as of the end of the preceding calendar month, and (ii) an aging of billed accounts receivable of the Borrower, and (iii) a report listing and describing any unbilled charges for work performed under the Borrower's contracts; however, when not borrowing under the Line, these reports listed in item (3) shall be provided within 30 days after the end of each calendar quarter (4) within 30 days after the end of each quarter of each of its fiscal years, status and backlog reports relating to the Borrower's contracts, (5) within 120 days after the end of each fiscal year end, the personal financial statement of each Guarantor; (6) promptly after receipt, copies of any reports from auditors of Government Contracts; and (7) such other information concerning the Collateral or the financial condition of the Borrower or any Guarantor as the Bank from time to time may reasonably request. All financial statements and reports shall be in form and detail acceptable to the Bank and shall be certified to be accurate by a duly authorized officer of the Borrower.

WHY AMEX IS THE PREFERRED METHOD OF BORROWING - Because of up front purchase requirements, AmEx has been crucial to our international logistical, meetings and conference operations. Quality Support could not have bid on and performed on many of our large contracts without this immediately available and flexible purchasing power, and this aspect of our corporate capabilities has been instrumental to our continued corporate competitiveness and growth. Without the flexibility offered through Amex, we would have to always have and use large amounts of cash on hand to support large ODC-heavy requirements. We have discovered that Banks do not offer such flexibility on an on-going basis without requiring the business to give up a large degree of autonomy in its financial and operational activities.

In addition to their important role in our growth, an important reason that we use Amex is for convenience, savings on finance charges, and the ease in which we can get short term access to extended credit.

American Express Credit Card Benefits

- **Finance Charges** - If Quality Support were to set up and access a LOC from the bank for short term access to credit for operating expenses, we would have to pay large amounts of interest. If we used cash in the bank, we would lose the opportunity of not being able to invest that money elsewhere. By using AmEx, we have access to the credit we need, pay no interest as long as we pay within the terms of our agreement, and are able to invest our cash on hand in interest paying accounts. While AmEx is only used for short term access to credit, this is no different than the bank LOCs, because the agreements specifically state that they can not be used for long term capital improvements.
- **Convenience**- AmEx is much more convenient because of its simplicity. When we have a short term requirement, like paying a \$750,000 hotel bill for example, we just need to make a phone call to Amex, explain the situation and sometimes provide basic financial information. This allows us in most cases to instantly increase our credit line for short term requirements. Even when we don't have these extreme requirements that require us to request short term increases, Amex gives us a healthy and flexible ongoing credit limit in relation to our company size.
- **Air Miles For Each Dollar Spent.** An added incentive for using AmEx Cards is that Quality Support earns mileage for dollars charged. These miles have been used to reward our best employees by giving them and their family's cost-free travel as a result of stellar performance. The air miles are incentive that a number of cards are now offering but I have never heard of a Bank offering any such incentives, let alone air miles.

CONCLUSION. Given the foregoing, along with the flexibility provided through the use of various credit cards (in Quality Support's case, especially AmEx OPEN) it is my intention to continue using such methods as much as possible to sustain our corporate operations in the most beneficial, cost effective, and prudent manner. Credit cards when used judiciously, provide the budding entrepreneur as well as the tenured small business owner flexible and expeditious access to cash flow that they otherwise would be denied. I have found Banks to be hostile and

inflexible in many ways and as was the case in 1999, turned us down flat when we needed them the most.

I sincerely believe that Quality Support's growth and success over the past (almost) 19 years, would not have been possible if cash flow and access to capital had not been available to us. For this, I thank the Credit Card companies that gave me the added capacity to form and grow the Company, support our first small contracts, and now, our much larger and diverse contracts. I especially give thanks to AmEx OPEN for its innovative approaches to supporting small business entities, and for its sense of team work with those small businesses they support. I routinely suggest to newly-established small businesses, that they take a serious look into the use of credit cards in support of various contract operations.

Respectfully Submitted,

Wayne M. Gatewood, Jr.